



Higher Education Budget Update, 2007-08

ITEM 2
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Background

As of August 6, 2007, the Legislature and the Governor had not approved a budget for the State of California for the now-current 2007-08 fiscal year. The State Assembly has approved its version of the budget but the State Senate has been unable to garner the two-thirds majority (27 votes) needed to pass a State Budget. Since both Houses have recessed, a budget may not be approved until after they reconvene on August 20.

On June 29, the Legislature's Budget Conference Committee voted out a budget authorizing \$145 billion in total general-purpose funds spending and containing a \$2.1 billion State General Fund reserve. On July 20, the Assembly approved its version of the budget on a 56-23 vote, one more than the 55 votes needed for passage. The Assembly budget cut \$861 million in General Fund spending from the Conference Committee version and includes a \$3.4 billion General Fund reserve. The Assembly also approved a variety of budget "trailer" bills that would implement specific provisions of the budget.

The debate in the Senate has centered on concerns from Senate Republicans that the proposed budget contains spending in excess of anticipated budget revenues that would leave the State with a large budget deficit. On July 25, Senate Republicans presented a list of proposed spending reductions for the 2007-08 budget totaling \$842 million. These cuts would also reduce next year's (2008-09) spending \$642 million below the level resulting from the Assembly version of the budget.

Budget Highlights

While there is no approved 2007-08 State Budget, the State Assembly's version includes \$103 billion in State General Fund spending, 1.3% above prior-year spending. Below are highlights from the Assembly's budget:

- Revenues/Expenditures – Assumes \$1 billion in new revenues from the sale of EdFund, the California Student Aid Commission's student loan guarantee organization; repays \$2.5 billion in outstanding deficit financing bonds; reduces the \$1.6 billion operating budget deficit in the May Revise to \$700 million; assumes \$186 million in budgetary savings from unallocated reductions to State operations.
- K-12 Education – Fully funds the Proposition 98 funding guarantee; provides 4.53% cost-of-living adjustment (COLA) for categorical and discretionary programs; funds expected growth in various K-12 programs.
- Higher Education – Fully funds projected enrollment growth; provides statutory and "Compact" required COLAs; fully funds anticipated Cal Grant entitlement awards growth; assumes CSU and UC-adopted student fee increases, with no fee increases for the community colleges; provides the community colleges \$52 million in combined ongoing and one-time funds for the K-12/CCC Career Technical Education Initiative.

- Other Programs – Increases Corrections funding by \$500 million, per various court cases; replaces \$1.3 billion in General Fund spending with transportation funds; delays COLA for CalWORKS and suspends the COLA for SSI/SSP, for a combined budget year savings of \$257 million.

Summary

Delays in approving a State Budget are not new but its impact upon State and local government operations, and associated private vendors, becomes increasingly significant when the delay extends beyond the first month of the new fiscal year. Experts believe that this year's budget will leave an ongoing "structural" deficit in State finances of around \$5 billion over the next two years. While higher education fares relatively well in the proposed budget, its funding remains vulnerable for future years under nearly any deficit reduction scenario or should there be a slowdown in the State's economy.